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IN THE

Supreme Court of the United States

OCTOBER TERM, 1938.

No. 1.

(No. 357, OCTOBER TERM, 1937, ON REHEARING)

GENERAL TALKING PICTURES CORPORATION,

Petitioner,

vs.

WESTERN ELECTRIC COMPANY, INCORPORATED, ELEC-
TRICAL RESEARCH PRODUCTS, INC. AND AMERICAN-
TELEPHONE AND TELEGRAPH COMPANY,

Respondents.

REPRINT FOR USE ON REHEARING OF FIRST PAGE
AND PART I OF ORIGINAL

BRIEF FOR RESPONDENTS.

MERRELL E. CLARK,

HENRY R. ASHTON,

Counsel for Respondents.

F. T. WOODWARD,

H. A. PATTISON,

E. J. DRISCOLL,

Of Counsel.

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WESTERN ELECTRIC COMPANY, INCOR-
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TELEPHONE AND TELEGRAPH COM-
PANY,
Respondents.

Reprint for Use on Rehearing of First Page
and Part I of Original

BRIEF FOR RESPONDENTS.

Opinions of the Courts Below.

The opinion of the Circuit Court of Appeals for the Second Circuit is reported in 91 F. (2d) 922. It will be found in this record at Volume III, page 1712.

The opinion of the District Court is reported in 16 F. Supp. 293. In this record it is at Volume III, page 1618.

Jurisdiction.

This case is here on a writ of certiorari to the Circuit Court of Appeals for the Second Circuit under the provisions of United States Code, Title 28, Section 347.

PART I.

Petitioner had no license, implied or otherwise, under the patents in suit.

Petitioner contends that although the amplifiers in controversy embody the inventions of the patents in suit, petitioner's use of them did not infringe those patents because they were purchased by petitioner from American Transformer Company, a licensee under the patents, and therefore, according to petitioner, they carried with them an implied license permitting petitioner to do with them as it chose. A complete answer to this contention is, we believe, that the American Transformer Company's license was a *limited* license, and its sale of the amplifiers to petitioner was *outside of the scope of that license* and therefore an *infringement*, as was known at the time by both parties to the transaction. Accordingly, no rights under the patents were conferred upon petitioner by the sale.

The facts are these. Amplifiers embodying the inventions of the patents here involved are useful in various fields, including the *commercial* field of sound recording and reproducing, which embraces talking picture equipment for theatres; and the *private or home* field which embraces radio broadcast reception, radio amateur reception and radio experimental reception. We designate this latter field by the convenient expression "private or home", because practically all of the radio reception included in that field is of that character. As we have said, respondents, Western Electric Company and Electrical Research Products, Inc., were, at the time in controversy, exclusive licensees under the patents in suit, for the commercial field of sound recording and reproducing¹ and, under that license, were actively engaged in the business of supplying the patented amplifiers to talking picture theatres, etc. American Transformer Company was one of a number of manufacturers who held non-exclusive licenses confined to the manufacture and sale of the pat-

¹ I, 603, 604.

ented amplifiers for *private or home use*, as distinguished from *business or commercial use*.¹ These licenses were granted by Radio Corporation acting for itself and also for respondent, American Telephone and Telegraph Company, and were assented to by the latter.²

The American Transformer Company's license was confined by the express terms of the grant, to the right³—

“to manufacture * * *, and to sell [the patented amplifiers] *only for radio amateur reception, radio experimental reception, and radio broadcast reception* * * *.”⁴

In other words, the Transformer Company had *no right or license to sell the patented amplifiers for use in theatres as part of talking picture equipment, or for any other use, not specified in its license.*

Nevertheless, the Transformer Company sold the amplifiers in controversy to petitioner for that particular commercial use. It did so knowing that they were going to be put to that use.⁵ This is established by the testimony of the Transformer Company's president⁶ and its sales agent.⁷ Indeed, petitioner *admits* that the Transformer Company “*knew that the amplifiers it sold to petitioner were to be used in the motion picture industry.*”⁸ Such sales were extensive and recurrent, continuing even after this suit was brought.⁹ Furthermore, petitioner, in

¹ Arrangements of this kind are not at all unusual. It is stipulated in this case (I, 585, 586):

“it is *common practice* where a patented invention is applicable to different uses, to grant written licenses to manufacturers under United States Letters Patents restricted to one or more of the several fields of use permitting the exclusive or non-exclusive use of the invention by the licensee in one field and excluding its use in another field.”

² III, 1423.

³ III, 1415.

⁴ Emphasis ours throughout this brief unless otherwise noted.

⁵ I, 341, 383, 408.

⁷ I, 341.

⁶ I, 407, 408.

⁹ III, 1580, *et seq.*

⁸ Original Brief for Petitioner, page 36; see also Brief for Petitioner on Rehearing, page 4.

Hereafter in this Reprint, reference to pages in petitioner's “brief” will refer to pages of the Brief for Petitioner on Rehearing. In the few instances where page references are still made to the original Brief for Respondents, that brief will be identified as “Original Brief”.

purchasing those amplifiers from the Transformer Company for that use, *had actual knowledge that the Transformer Company had no license to make such a sale, as the record clearly shows,¹ and as the District Court specifically found.²*

Although the Transformer Company knew that these amplifiers were to be used for the commercial use noted, and although it sold them *outside* of the license, for that particular use, it went through the form of affixing to them the same notice³ that it customarily affixed to amplifiers sold by it *under* the license, as required by its paragraph 5, *viz.* (III, 1418):

"License Notice—This Apparatus is Licensed Only for Radio Amateur, Experimental and Broadcast Reception Under the Following Patents of the Radio Corp'n of America and Associated Companies,"

listing the patents. The notice so affixed was a mere pretense and was intended by both the Transformer Company and petitioner to be "disregarded".⁴

The Circuit Court of Appeals found⁵—

"It was beyond the scope of the American Transformer Company's license to sell the amplifiers for the use

¹ I, 358, 359. In its letter of November 23, 1928 to petitioner, in reply to the latter's initial request for information and prices (II, 731), the Transformer Company said (II, 732):

"We have your letter of the 17th in regard to amplifiers to be used with phonograph and the like in theatres.

"The license which we have with the Radio Corporation of America is that the amplifier is to be used for broadcasting reception and for experimental and amateurs use only and not for commercial use. That is the type of license notice which is placed upon the amplifier and is the only way which we can sell them."

² III, 1627 and 1645. At page 1628, the court quotes the above letter in support of its finding.

³ I, 360, Plaintiffs' Exhibit 30; II, 734.

⁴ I, 370.

⁵ III, 1724.

for which it sold them to defendants [petitioner]. The sale was therefore an infringement and not a licensee's lawful sale."

After acquiring the amplifiers through this unlicensed, infringing sale, petitioner proceeded to lease them for a large consideration to theatres for use in reproducing talking pictures.¹ It is that act that is here charged as an infringement.

Argument.

In its main argument of non-infringement, petitioner ignores the fact that the sale of the amplifiers by the Transformer Company to petitioner was *outside* of the Transformer Company's license to sell, and treats the situation as if that sale had been *under* the patents in suit (i. e., by the patent owner itself or *under* a license from the patent owner). Upon the erroneous assumption that the sale was *under* those patents, petitioner contends that by that transaction it acquired the unrestricted right to use the amplifiers as it wished, in spite of its admission that it had actual knowledge at the time of sale that they were licensed for private or home use only and not for commercial use. For, says petitioner, a patent owner cannot under any circumstances or in any manner place a restriction, which will be enforceable under the patent law, upon the use to which a purchaser may put a device which has been made and sold under the patent.

We do not agree with this proposition of law. We believe the law to be that reasonable restrictions limiting the field of use of a patented device are enforceable under the patent law against a purchaser with notice. They have never been held otherwise. However, this point is not involved in this case because here, as we have seen, the

¹ I, 65. See the lease, II, 735.

sale to petitioner was not a sale *under* the patents, but a sale *in infringement* of the patents, brought about by petitioner's connivance with the Transformer Company, with full knowledge of all the facts. Therefore, we shall postpone our discussion of petitioner's proposition of law until after we have dealt with the issue actually presented by the facts in this case.

A.

The fact that the amplifiers in question were sold to petitioner by the American Transformer Company, which had a license under the patents in suit, does not excuse petitioner's infringement of those patents because that sale was outside of the Transformer Company's license, as both petitioner and the Transformer Company knew at the time. The Transformer Company's sale was itself an infringement and therefore could not confer upon petitioner any right or license under the patents.

As this Court said in *Bloomer v. McQuewan*, 14 How. 539, 549:

"The franchise which the patent grants, consists altogether in the right to exclude everyone from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."¹

A license is a mere permission granted by the patentee—a "mere waiver of his right to sue", *DeForest Radio Telephone Co. v. United States*, 273 U. S. 236, 242. If a licensee "performs an act in reference to the licensed invention which his license does not authorize . . . he is guilty of infringement". *Robinson on Patents*, Sec. 916.

¹ See also the full discussion in the *Paper Bag Patent Case*, 210 U. S. 405, 423, *et seq.*

"Any sale beyond the terms of the license is an infringement." *L. E. Waterman Co. v. Kline, et al.*, 234 Fed. 891, 893 (C. C. A. 4).

Thus, if the license grants permission to use a patented process for one purpose only, the licensee is liable as an infringer if he uses it for another purpose. *Rubber Co. v. Goodyear*, 9 Wall. 788, 799.

Similarly, as was stated by this Court in *United States v. General Electric Co., et al.*, 272 U. S. 476, 490:

"* * * The patentee may make and grant a license to another to make and use the patented articles, but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He *owns* the material of them and may use them. But if he *sells* them, he infringes the right of the patentee, and may be held for damages and enjoined."

So also, if a license gives the licensee permission to make the patented thing and to sell it only within a particular territory, the licensee would be an infringer if he went into another territory and *there* sold the patented thing. Or, if the license gives the licensee permission to make devices covered by a patent and to sell them "for use only in connection with and as part of" machines of a specified type, the sale of those devices by the licensee as part of machines of a different type is an infringement. *Vulcan Mfg. Co. v. Maytag Co.*, 73 F. (2d) 136, 138 (C. C. A. 8).

Similarly where, as here, the license gives the licensee permission to make the patented devices and to sell them only for specified uses, their deliberate sale by the licensee *for an entirely different use*, is an infringement.

There can be no doubt of the correctness of the finding of the Circuit Court of Appeals that the Transformer Company's deliberate and unauthorized sale of amplifiers to petitioner for use in talking picture theatres was "an infringement and not a licensee's lawful sale".¹

It follows that petitioner, which was fully conversant with all of the facts and which conspired with the Trans-

¹ III, 1724.

former Company in causing it to exceed the bounds of its license, acquired no rights under the patents with regard to those amplifiers by virtue of its purchase of them from the Transformer Company. Petitioner's subsequent leasing of those amplifiers to talking picture theatres was just as much an infringement of those patents as if petitioner had purchased them from someone who had no license at all, or as if petitioner had made them itself. Indeed, in view of petitioner's conspiracy with the Transformer Company in bringing about the infringing sale by that company to it, it is liable for that infringement, jointly with the Transformer Company, as well as for its own subsequent infringing use of the amplifiers.¹

Petitioner's argument on this point is fallacious:

In its statement of facts,² petitioner correctly states that the Transformer Company's license under the patents in suit was a license—

“to manufacture * * *, and to sell *only* for radio amateur reception, radio experimental reception, and radio broadcast reception * * *” (Vol. I, pp. 332-335; Vol. III, p. 1415)”

- For the reasons just stated, we cannot ignore the limited character of this license to sell, or the fact that the Transformer Company's sale of amplifiers to petitioner was known by both of them to be outside of the scope of that license. In our view, those facts dispose completely of the defense of non-infringement in this case.

Yet petitioner persists in blinking these facts. For example, in its statements of Point I and Point II,³ concern-

¹ Petitioner refers (Original Brief, p. 41) to the fact that respondents did not also sue the Transformer Company. That was not necessary. Since the Transformer Company and petitioner were both infringers, jointly and severally, either or both could be sued. Respondents chose to sue petitioner which was in direct competition with the business of the licensed respondents in their exclusive field.

² Brief, page 2.

³ Brief, pages 10 and 19.

ing the alleged effect of the sale of a patented article which has been made "under the patent", petitioner avoids saying whether the sale it is talking about was made "*under the patent*", or *in infringement* of the patent, as in this case..

Similarly, in its heading on page 11, it speaks of the sale of a patented article by a licensee having "*a power of sale*", but avoids saying whether the sale to which it is referring is within the licensee's power of sale, or is outside of it, as in this case. And in supposed connection with our position that the sale of the amplifiers to petitioner, being outside of its vendor's power of sale, carried with it no rights under the patents in suit, petitioner says:¹

"In the first place the fact that the licensee undeniably had the right to *sell* is a complete answer."
(Emphasis is petitioner's).

That is no answer at all because it is untrue with respect to the sale to petitioner. The whole point is that *the vendor had no right to make this particular sale, as both it and petitioner knew.*

The situation is no different from that which might arise in the case of a licensee who had a license to sell only five machines. If such a licensee, after selling the five machines under his license, sold another one to a person who knew of the limitation of the license and that the license was being exceeded, that sale and the purchaser's subsequent use of the machine, would be infringements. As already noted, "any sale beyond the terms of the license is an infringement". *L. E. Waterman Co. v. Kline, et al.*, 234 Fed. 891, 893.² And an infringing sale carries with it no rights under the patent.

Petitioner also seeks to get some comfort out of its assertion that "to each amplifier made and sold by it to petitioner, there was attached a 'license notice' precisely as set forth in its license agreement with respondents".

¹ Brief, page 32.

² Original Brief, page 34.

³ *Supra*, page 13.

So far as the present point is concerned, the fact that "license notices" were attached to the amplifiers is of no moment whatever. The Transformer Company's license agreement provided:¹

"5. The Licensee shall affix to all Licensed Apparatus manufactured and sold by the Licensee under the terms of this Agreement, a license plate reading:

"'Licensed only for Radio Amateur, Experimental and Broadcast Reception' * * *"

But petitioner's amplifiers were not "sold by the Licensee under the terms of this Agreement". They were sold *outside* of the terms of the agreement. It did no good for the Transformer Company to *pretend* that they were sold under the terms of the agreement by attaching to them the "license notice" required by the agreement for licensed sales.

Nor does the following assertion by petitioner advance its argument in the slightest:²

"* * * If the licensee, in exercising his right to sell, is claimed to have breached some express covenant in his license agreement, the remedy—and the only remedy—of the licensor lay in a *suit against the licensee because of the breach*. No cause of action—and certainly not one under the patent law—would lie against the purchaser." (Emphasis petitioner's.)

We are not relying here on any breach of covenant by the Transformer Company. Our claim is that in selling the patented amplifiers to the petitioner for use in talking picture equipment for theatres, that company made a sale which the patent owner had not granted it permission to make, and which was therefore an infringement. Accordingly, the fact that petitioner acquired the amplifiers by virtue of that sale affords no defense to the charge of infringement in this case against petitioner for its own infringing use of the amplifiers.

• Petitioner refers to the lower court decision in *Mitchell v. Hawley*, 11 Fed. Cas. 883, 885 (Case No. 6250).³ In that

¹ III, 1418, paragraph 5.

² Brief, pages 32, 33.

³ Brief, page 32.

case the court was considering the question of whether the purchaser of a patented machine was liable as an infringer for using the machine during the extended term of the patent.¹ It held that he was, since his vendor was a licensee under a restricted license which "expressly provided that he shall not, in any way or form, dispose of any license to use the machines beyond the third day of May, 1867", that being the date of expiration of the original term of the patent, and "he clearly could not convey any greater rights than he possessed". The decision of the Circuit Court was affirmed by this Court (*Mitchell v. Hawley*, 16 Wall. 544). Instead of support-

¹ The term of the patent had been extended under the provisions of Sec. 18 of the Patent Act of 1836 (5 Stat. at large 117) then in force, which read:

"Section 18. *And be it further enacted.* That whenever any patentee of an invention or discovery shall desire an extension of his patent beyond the term of its limitation, he may make application therefor, in writing, to the Commissioner of the Patent Office, setting forth the grounds thereof; * * *. And if, upon a hearing of the matter, it shall appear to the full and entire satisfaction of said board, having due regard to the public interest therein, that it is just and proper that the term of the patent should be extended, by reason of the patentee, without neglect or fault on his part, having failed to obtain, from the use and sale of his invention, a reasonable remuneration for the time, ingenuity, and expense bestowed upon the same, and the introduction thereof into use, it shall be the duty of the Commissioner to renew and extend the patent, by making a certificate thereon of such extension, for the term of seven years from and after the expiration of the first term; * * * and thereupon the said patent shall have the same effect in law as though it had been originally granted for the term of twenty-one years. *And the benefit of such renewal shall extend to assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein [Italics ours]: Provided however [Italics in original], That no extension of a patent shall be granted after the expiration of the term for which it was originally issued."*

ing petitioner's argument the case is clear authority against it, as was held by both of the courts below.¹

Petitioner's fragmentary quotation from the lower court's decision in that case,² tends to convey exactly the opposite meaning from that intended by the court. In that portion of its opinion the court was drawing a contrast between the situation as it actually existed, with the vendor a restricted licensee, and the situation which would have existed if the vendor had been "a territorial assignee" of the original patent, i. e., the owner of that patent for a given territory. Being only a restricted licensee, the court said (p. 885):

"He had no power to sell a machine so as to take it out of the monopoly of the patent."

But, the court continued—and in this quotation we have italicised the words for which petitioner substituted asterisks—

"Had he *been a territorial assignee* and possessed the power to sell the patented machines, the purchaser would have acquired a title which would have been outside of the monopoly, and would have acquired the absolute right to use the machines during the extended term; and this notwithstanding any covenants Bayley might have made not to convey such a title. Under such circumstances, the patentee must have sought his remedy against Bayley on his covenants."

Under these circumstances, the patentee would have had to pursue his remedy against the vendor on his covenants because a territorial *assignee*, being the owner of the patent for that territory and having, therefore, an absolute right to sell the patented machines in that territory, could not have *infringed* the patent by any sale made *within* that territory, no matter how unrestricted the sale might have been.

¹ III, 1724, 1630. And see our further discussion of the case, *infra*, pages 29, 38-42.

² Brief, pages 32, 33.

But that has no bearing on this case, where petitioner's vendor was not a territorial assignee under the patent, but only the holder of a limited license, and where its sale to petitioner was outside of its license and therefore an infringement. There can be no valid excuse for petitioner's omission of the essential words from the above quotation.

The cases of *Adams v. Burke*, 84 U. S. (17 Wall.) 453, *Hobbie v. Jennison*, 149 U. S. 355, and *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, cited at page 35 of petitioner's brief, emphasize still further the difference between a territorial assignee and the holder of a limited license to sell. In each of those cases the vendor was a territorial assignee of the patent, and had made an absolute and unrestricted sale of the patented device within his own territory, as he had a perfect right to do, in view of his ownership of the patent for that territory.¹ In the first and last of these cases the defendants (alleged infringers) were the persons who had purchased the patented devices from the territorial assignees by sales of that character, and had then proceeded to use or sell them outside of their vendor's territory. In the second of these cases (*Hobbie v. Jennison*), the suit was against the territorial assignee himself, who had made an absolute sale of patented articles in his territory, with knowledge that they were to be used elsewhere by the purchaser. In each case it was held that there had been no infringement. In making the unrestricted sale, within his territory, the territorial assignee had done only what he had a right to do under the patent. The patented articles had been "lawfully made and sold",² i. e., sold under the patent because sold within the territory covered by the assignment.

¹ At pages 34, 35 of its brief petitioner misconstrues these cases in assuming that the vendor's "right to sell" was restricted.

² *Adams v. Burke*, 17 Wall. 453, 457; *Hobbie v. Jennison*, 149 U. S. 355, 363.

The distinction between these cases and the present one is clear. For, as we have said, the vendor in the present case was not an assignee of the patents, territorial or otherwise, but only the holder of a limited license under them; and its sale to petitioner, instead of being a "lawful" sale, was beyond the terms of its license and therefore "an infringement and not a licensee's lawful sale".¹

Neither the case of *Straus v. Victor*, 243 U. S. 490, nor the *Motion Picture Patents* case, 243 U. S. 502, both of which are cited at pages 35, 36 of petitioner's brief, has any bearing upon the present question.

The first of these cases stands for the proposition that the patent-law does not give a patent owner the right to fix the resale price of his patented article, the second, that it does not give him the right to compel the purchaser of a patented machine sold under a patent, to use it only with *unpatented* supplies purchased from the patent owner. They are discussed more in detail later.²

The license of American Transformer Company affords no defense to the charge of infringement against petitioner in this case. For the Transformer Company's sale to petitioner was not *under* that license, but *outside* of it, as both of them knew. Therefore, that sale and petitioner's subsequent use of the amplifiers, were just as clearly *infringements* of the patents, as if the vendor had had no license at all.

We come now to our discussion of the contention made by petitioner in its Points I and II.

¹ Opinion of Circuit Court of Appeals in this case (III, 1724).

² *Infra*, pages 33, 36, 46.

B.

Reasonable restrictions of the character here involved, which limit the field of use of a patented device sold under the patent, are valid and enforceable under the patent law as against one who has purchased the device with knowledge of the restrictions. Therefore petitioner would have been an infringer even if the sale of the amplifiers to it had been *under* the patents in suit instead of *in infringement* of those patents.

This point of law would become germane to this case only if this Court should find that the sale of the amplifiers to petitioner was within the terms of the vendor's license. As we have already pointed out, the record shows that it was not, and the court below so found. Therefore, the point is moot. Our discussion of it, as in the Courts below, is by way of replying completely to petitioner's brief, which we feel compelled to do. This discussion will necessarily be of some length because of the nature of the point. *For the purpose of this discussion, and solely for this purpose, we shall disregard the fact—which itself disposes completely of the defense of non-infringement—that the sale of the amplifiers to petitioner was in infringement of the patents.*

In order to overcome the charge of infringement in this case, petitioner must show affirmatively that it had a license to use the amplifiers in question, in the field in which it used them, namely, in the commercial field of talking motion picture reproduction in theatres. For, as we have seen, petitioner admits that those amplifiers embody the inventions claimed in the patents in suit.¹ Peti-

¹ License is an affirmative defense to be established by the party asserting it. *Sherman, Clay & Co. vs. Searchlight Horn Co.*, 225 Fed. 497, 500; *Union Special Mach. Co. vs. Maimin*, 185 Fed. 120, 128.

tioner does not contend that it ever received an express license to use them in that field. On the contrary, at the trial petitioner's counsel stated that the amplifiers were sold to petitioner with the limited license to use them only for radio amateur, experimental, and broadcast reception. In this connection counsel said:¹

"* * * The apparatus was sold to us with that limited license of use, in accordance with the express terms of the American Transformer license, noticed right on the instrument itself."

Nevertheless, petitioner seeks to establish that it was licensed to use these amplifiers for the commercial reproduction of talking pictures in theatres, by contending that from a legal standpoint, the limitations of that express license were void *ab initio*, and that therefore petitioner acquired with the amplifiers an unlimited license to use them in any and all fields.

In support of this contention petitioner argues that the sale of a patented device under the patent, automatically and inevitably conveys to the purchaser, by implication, an unrestricted license to do what he will with the thing purchased, and that it is impossible for the patentee to overcome that implication even by a notice of the restrictions brought home to the purchaser at the time of the purchase. According to petitioner, the sale "exhausts the monopoly of the patent owner as to the particular article involved",² in spite of any precautions that may be taken to avoid this result. In this connection, petitioner quotes general language from decisions by this Court about the sale of a patented article taking it out of the patent monopoly.

Later we shall discuss these decisions and point out that the language which petitioner quotes from them had its origin in cases which did not involve restricted sales of patented articles, and that it should be un-

¹ I, 325.

² Brief, page 13.

³ *Infra*, pages 37-49.

derstood as applying only to unrestricted sales. The only instances in which this Court has held restrictions imposed in connection with the sale of a patented device to be invalid are (1) where the restrictions sought to fix the resale price of the device, and (2) where they sought to compel the purchaser of the device to purchase from the patentee *unpatented* supplies required in the operation of the patented device. These restrictions were held invalid as against public policy—those of the first class because it was deemed undue restraint of trade to allow the vendor of an article, whether patented or unpatented, to dictate resale prices, and those of the second class because they attempt to include within the scope of the patent monopoly, materials which are not covered by the patent.

Reasonable restrictions limiting the field of use of a patented device, such, for example, as the one in which we are interested in this case, do not fall within either of these classes and, as petitioner appears to concede,¹ *have never been held invalid*. They are not against public policy, or outside of the scope of the patent monopoly. In our view they are valid and enforceable against a purchaser with notice.

Public policy is not opposed to, and on the contrary distinctly requires, the enforcement of reasonable restrictions on the field of use of a patented device:

Restrictions of this character are beneficial to the public because they promote the purposes of the patent laws, make for fair dealing between the patentee and the public, and stimulate trade and the development of the arts. Frequently, as in this case, the value derivable from the commercial use of the patented device far outweighs the intrinsic value of the thing itself. Reasonable restric-

¹ Original Brief, page 10. There petitioner refers to the decisions of this Court merely as being "on closely analogous questions", and, on page 39, of Original Brief, to the "trend of the decisions of this Court". On page 26 of Brief, petitioner admits a distinction "in the character of the restrictions" involved, between the case at bar and this Court's decisions in the above two classes of cases.

tions limiting the field in which such devices may be used, make it possible for a patentee to sell them to the general public at reasonable prices, for use in other fields, while still retaining his exclusive rights in the particular commercial field in which he himself is using the invention.

Were it not possible for him to do this, he would have to elect between two alternatives. He would either have to increase his selling price to the public to an extent sufficient to compensate him for any resultant loss that he might suffer in his own field of use, or he would have to exercise to a greater degree the right of exclusion granted by his patent, and refrain from making or permitting *any* distribution of the patented devices to the general public, as he would have a perfect right to do.¹

Neither of these alternatives would be advantageous to the public. The extra price which it would be necessary for the patentee to exact from every purchaser, under the first alternative, would, in many cases, be a payment for something that the purchaser did not want, since the purchaser would have no desire to use the patented device in the patentee's field. And under the second alternative, the general public would not be permitted to enjoy the invention until the expiration of the patent monopoly.

If, on the other hand, as we believe to be the case, reasonable restrictions limiting the field of use of a patented device are enforceable under the patent law, the public may acquire such devices freely, and *by paying only for what they want*. For example, a radio enthusiast may buy a patented amplifier for use in his home by paying a price which the patentee is willing to accept for such a sale, and without being required to pay for the privilege (which he does not want) of using it for commercial purposes. In our view it is far more important that the interests of the public generally should be served by making possible restricted sales of this kind, than it is to permit someone like this petitioner to acquire a patented amplifier at a price and under a license, which con-

¹ Paper Bag Patent Case, 210 U. S. 405, 425, *infra*, page 57.

template that it will be used only in the home, and then to use it in the field in which the patentee himself is commercializing the invention.

The view which we advocate is fair to the inventor and the public alike; it encourages and promotes trade, and it provides the incentive to invention and to the investment required for the development of inventions, which it was the object of the patent laws to create.

The authorities sustain the enforceability of express restrictions of the character here involved:

We agree fully with the proposition that an authorized sale of a patented device, made *without notice of any restriction*, gives to the purchaser an implied license to do with it as he will. To use petitioner's language, such a sale indeed "exhausts the monopoly of the patent owner as to the particular article involved". But when the sale is made with knowledge of a restriction limiting the field of use of the device, or other *reasonable restrictions actually within the scope of the patent monopoly*, the usual unrestricted license is replaced by an express restricted license. And if, thereafter, the purchaser exceeds the bounds of that restricted license, he is liable as an infringer.

Preliminary to our discussion of the authorities relating directly to the validity of these restrictions, we call attention to the following statement from *Bement v. National Harrow Co.*, 186 U. S. 70, 91 (the decision in which was reaffirmed in *United States v. General Electric Co., et al.*, 272 U. S. 476, 490):

"* * * Notwithstanding these exceptions, the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are *not in their very nature illegal* with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts."

It is from this point of view that the question of law now under discussion, should be considered. Unless the

restriction is in its "very nature illegal" it "will be upheld by the courts". As we shall see, this rule has been consistently followed by the courts and under it restrictions upon the use of the patented thing itself, have always been upheld.

The General Rule as Stated by the Authorities:

The true rule, as we have outlined it above, is well expressed in *Robinson on Patents*,¹ Sec. 824, as follows:

"There are certain cases in which the law implies a license from the dealings of the parties with each other, or from the relations which subsist between them. The most frequent and important of these cases arises when a patented article is sold by anyone who has a right to sell it. From such a sale the law implies a license to the purchaser, and to every subsequent owner of the article, to use it as long as its identity can be preserved. This implied license rests upon the principle that the owner of the patented invention, having once received his recompense for releasing the article from the monopoly, either in its price directly paid to him or in the license-fee which he collects from its vendor, he can thereafter neither limit nor demand compensation for its use, but by the sale delivers it from all the restrictions of the patent and makes it common property like any other personal estate. To have that effect, however, the sale must be a lawful and unconditional sale. * * * Not only may the patentee impose conditions, limiting the use of the patented article, upon his grantees and express licensees, but any person having the right to sell may at the time of sale restrict the use of his vendee within specific boundaries of time or place or method, and these will then become the measure of the implied license arising from the sale. But when the sale is unconditional, as is the case in ordinary sales by authorized vendors in open market, the implied license gives to the purchaser and his vendees the unrestricted

¹ Robinson has been recognized for years as the greatest and most authoritative work on Patents and has been cited repeatedly by this Court. For example, Robinson is cited in *DeForest v. United States*, 273 U. S. 236, 242, on the subject of license.

right to use the article unless such use infringes some other patent than the one by which the article itself has been protected."

As Judge Wallace put it in *Holiday v. Mattheson*, 24 Fed. 185, 186 (C. C. S. D. N. Y.):

"* * * When the owner of a patent sells the patented article under circumstances which imply that the purchaser is not to acquire an unqualified property in the thing purchased, as where a license accompanies the transfer, the purchaser's rights are limited to the extent of the monopoly granted to him."

In *Dickerson v. Tinkling*, 84 Fed. 192 (C. C. A. 8), a patentee, who owned both United States and foreign patents for a certain drug, had sold the patented drug in Germany to the defendant. Notice that the drug was not to be imported into or resold within the United States, appeared upon the packages containing the drug. The defendant was held liable as an infringer having resold the drug in the United States. The court stated the rule as follows (p. 195):

"* * * there can be no doubt that a patentee has the same right and power to sell the patented article upon conditions or with restrictions that he has to sell it at all. * * * If the corporation sold the patented article subject to such a restriction, the purchasers, with a notice of this limitation, whether immediate or remote, could acquire no better right than strangers to infringe upon the monopoly secured by the patent."

In *Dickerson v. Matheson, et al.*, 57 Fed. 524 (C. C. A. 2), the same ruling had previously been made upon a similar state of facts.

The Court of Appeals for the Second Circuit in *General Electric Co. v. Continental Lamp Works*, 280 Fed. 846 (a case decided long after this Court's decisions upon which petitioner relies, *infra*, p. 37), held that the sale by the plaintiff of bases for electric lamps did not carry with it a license under the plaintiff's lamp patents, in view of notice to that effect brought home to the purchaser at the time of his purchase. The court said (p. 851):

"Use of an invention can only be obtained on the inventor's terms. Without paying or doing what-

ever he exacts; no one can be exempt from his right to exclude, and, whatever the terms, the courts will enforce them, provided only that the licensee is not thereby required to violate some law outside of the patent law.

"So, where the owner of a patent sells a patented article subject to a restriction, the purchasers, with notice of this limitation, could acquire no better right than strangers to infringe upon that part or claim of the monopoly still secured to the patentee" (citing *Dickerson v. Tinling, supra*).

The same rule obtains in England: Thus it is said in *Terrell on Patents*, 8th Edition, 1934, the leading English textbook authority (p. 273):

"A purchaser of patented goods without notice of restrictions affecting such goods is free to use and sell them in any way he chooses,¹ but if he has such notice at the time of his purchase and contravenes such restrictions he is liable to be sued for infringement by the patentee, as the restrictions are 'not contractual but are incident to and a limitation of the grant of the license to use, so that, if the conditions are broken, there is no grant at all'.²

¹ Citing *Betts v. Willmott*, L. R. 6 Ch. App. 239, at p. 245; *Incandescent Gas Light Co., Ltd. v. Cantelo*, 12 R. P. C. 262; *Incandescent Gas Light Co., Ltd. v. Brogden*, 16 R. P. C. 179; *Scottish Vacuum Cleaner Co., Ltd. v. Provincial Cinematograph Theatres, Ltd.*, 32 R. P. C. 353 (O. H.).

² Citing *Farwell, J.*, in *British Mutoscope & Biograph Co., Ltd. v. Homer*, 18 R. P. C. 177, at p. 179; see also *National Phonograph Co. of Australia, Ltd. v. Menck*, 28 R. P. C. 229 (P. C.) at p. 248; see also *Columbia Phonograph Co. General v. Regent Fittings Co.*, 30 R. P. C. 484; *Columbia Graphophone Co. v. Vanner*, 33 R. P. C. 104; *Columbia Graphophone Co., Ltd. v. Murray*, 39 R. P. C. 239; *Columbia Graphophone Co., Ltd. v. Thoms*, 41 R. P. C. 294.

The English case of *Taddy v. Sterious*, L. R. (1904) 1 Ch., 354, cited on page 33 of petitioner's brief, related to a resale price restriction on *unpatented* articles. The above cases in this footnote, cited by Terrell, are the controlling English cases enforcing restrictions on *patented* articles after sale.

"The question of the knowledge of the defendant is one of fact in each case, as to which the passing of some leaflet or label with the goods at the time of sale may or may not be sufficient evidence according to the nature of the goods and the general circumstances. It is not essential that the purchaser should have knowledge of the precise restrictions concerned so long as he has knowledge of their nature and existence and means of knowledge of their exact extent."¹

Decisions Applying the Rule to Restrictions upon the Use of the Patented Device Itself:

In every case with which we are familiar where it has been necessary to pass upon *restrictions upon the use of the patented device itself*, the rule stated in the above quotations has been followed, and the restrictions held valid and enforceable under the patent law.

The only case in which this Court has been required to pass directly upon restrictions of this character is *Mitchell v. Hawley*, 16 Wall. 544, previously referred to.² The restriction there in question limited the time during which the patented machines could be used. It permitted their use only during the original term of the patent. The defendant had purchased the machines from a licensee whose license did not permit him to grant the right to use them beyond that term. The purchaser was held *chargeable with knowledge* of the limited character of his vendee's rights. The patent term was extended under the provisions of the Patent Statute then in force.³ The purchaser continued to use the machines after the expiration of the original term. This Court held that such use exceeded the right to use, acquired by the purchaser, and was an infringement. It was argued in that case (p. 546) that

¹ Citing *Columbia Graphophone Co., Ltd. v. Murray*, 39 R. P. C. 239; cf. *Badische Anilin und Soda Fabrik v. Isler*, 23 R. P. C. 633 (C. A.).

² *Supra*, pages 16-19.

³ Quoted, *supra*, page 17.

the sale "operated to take *the thing sold* out of the reach of the Patent Act altogether, and that as long as the machines themselves lasted, the owner could use them"—the same argument that is urged upon the Court in the present case. The Court decided against the defendant, nevertheless, for the reasons stated above. And the Court, distinguishing *Bloomer v. McQuewan*, 14 How. 549, here relied upon by petitioner, made clear its recognition of the rule that a sale made "without any conditions" would have had the effect for which the defendant was contending.¹

¹ The Court said, page 547:

"... a patentee, when he has himself constructed a machine and sold it *without any conditions*, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, *without any conditions*, and the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold and delivered or authorized to be constructed and operated";

also, that the purchaser of a machine *under such circumstances*

"may continue to use it until it is worn out, in spite of any and every extension subsequently obtained by the patentee or his assigns."

And, the Court cites in this connection *Bloomer v. McQuewan*, 14 How. 549, and *Chaffee v. Boston Belting Co.*, 22 How. 223, cases which so hold. But the Court said further (p. 548), that

"Sales of the kind may be made by the patentee *with or without conditions*"

and, since, in the case before the Court, the right granted to the maker of the machines had been expressly limited by the license contract so that he could not license the use of them beyond the expiration of the original patent, the Court enjoined as an infringement, the further use of the machines.

Continuation of Footnote on Page 30, this continuation being new, and not a reprint of anything heretofore filed.

In the Reply Brief for Petitioner on the prior hearing (pp. 9, 10), our treatment of the decision of this Court in *Mitchell v. Hawley* is criticised on the ground that the lower court in that case said that Bayley, the manufacturer of the machines involved, had no authority from the patent owner "to give any title to the machines" to another.

We do not believe that our treatment of this Court's decision in that case is subject to criticism on that score.

The facts were that Bayley had (p. 545)—

"the exclusive right to *make* and use, and to license to others the right to *use* the said machines"

in the territory in question. This was subject, however, to the proviso (*id.*)—

"that the said Bayley shall not in any way or form dispose of, sell, or grant any license to use the said machines beyond the 3rd day of May, A. D. 1867."

Since Bayley was the only one licensed to *make* the machines, his right "to license to others the right to *use*" them would have been futile were it not for the necessary implication that those who obtained from him the right to *use* the machines could also obtain from him the machines to be used. So, as this Court said (p. 549):

"• • • Bayley, as *such licensee*, on the eighteenth of March, 1864, constructed four machines, being two sets, and *sold* the machines, 'with the right to *run*' the same, to the grantors of the respondents, for the sum of twelve hundred dollars, executing to the purchasers at the same time a license under his hand and seal, authorizing the purchasers, as such licensees, 'to run and use two sets (four machines) for felting hats, in said Town of Haverhill, under Taylor's patent, bearing date as specified in the original letters-patent,' showing conclusively that the purchasers were referred to the original letters-patent as the source of his authority."

There is no suggestion in the Court's opinion that Bayley who, as just stated, unquestionably had the right to *furnish* patented machines to the prospective user, had

no right to do so by way of sale, which transferred title. That Bayley did so in that way is clear from the opinion, and the Court does not criticise that form of transfer. The Court's point was that Bayley (p. 551) —

“never had any power to sell a machine so as to withdraw it *indefinitely* from the operation of the franchise secured by the patent”.

That is, he had no right to sell a patented machine otherwise than subject to a restriction limiting its use definitely to the term of the original patent. The purchaser, who had knowledge of, or was chargeable with knowledge of, that fact, purchased subject to that restriction. His later use of the machines in violation of that restriction was held to be an infringement.

This decision has never been overruled by this Court. It has been cited frequently by this Court, and has been followed in many decisions of the lower courts, for example, in *Porter Needle Co. v. National Needle Co.*, 17 Fed. 536 (C. C., D. Mass., Lowell, J.) in which another restriction upon the duration of the permitted use was upheld. In that case, the court construed the document before it as a sale of certain patented machines conditioned upon payment of royalty up to a certain date, without the right to use the machines thereafter unless some further agreement should be made. After the stipulated period had expired, no new agreement having been made, the court enjoined the use of the machines and said (p. 537):

"We agree that the words, 'the said seven machines are valued at \$800, the receipt of which is acknowledged,' import a sale of the machines; and that an absolute and unqualified sale of a patented machine carries with it the right of use. But the mere value of a patented machine is often, and is proved to be in this case, insignificant in comparison with the value of its use; and the courts have permitted a severance of ownership and right of use, if the patentee has chosen to dis sever them, and if his intent is not doubtful. For instance: a license to use a machine implies the right to make and own it; and yet, if the owner neglects to pay the license fee, he may be restrained from using a machine to which his title is undoubted. One who is licensed to make, use, and sell machines for the term of the patent, and no longer, sells a machine with the right to use it. The purchaser owns the machine, but if the patent is extended, he has no right to use it, during the extended term, without a further license from the patentee. *Mitchell v. Hawley*, 16 Wall. 544. In many other cases the ownership of the machine will not necessarily carry with it the right to use it without the permission of the patentee."

In *Skee Ball Co. v. Cohen*, 286 Fed. 275 (D. C. E. D., N. Y.), a case decided long after the decisions of this

Court that are relied upon by petitioner, the court upheld a restriction imposed at the time of sale, limiting the use of the patented skée ball alley, to a prescribed area. The purpose of the restriction was to prevent destructive competition between licensees.

Decisions of this Court Establishing Exceptions to the General Rule:

As we have previously stated, only two specific exceptions have been established to the general rule as to the enforceability of restrictions brought home to the purchaser at the time of his purchase of a patented device. They are (1) restrictions attempting to fix the resale price, and (2) restrictions seeking to compel the purchaser to purchase unpatented supplies from a specified source.

(1) *Restrictions fixing the Resale Price:*

The case which established this exception to the general rule, with regard to patented articles is *Bauer v. O'Donnell*, 229 U. S. 1 (The "*Sanatogen*" case), in which the maker of a patent medicine attempted, by notice appearing upon the containers, to fix the price at which retailers purchasing it from him or from his dealers might sell it. In *Bobbs-Merrill Co. v. Straus*, 210 U. S. 339, the Court had held that restrictions fixing the resale price of copyrighted books could not be enforced under the copyright laws. In the *Bauer v. O'Donnell* case, it applied the same doctrine to the patent laws. The Court said (pp. 11, 12):

"The object of the notice is said to be to effectually maintain prices and to prevent ruinous competition by the cutting of prices in sales of the patented article. That such purpose could not be accomplished by agreements concerning articles not protected by the patent monopoly was settled by this court in

the case of *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373, in which it was held that an attempt to thus fix the price of an article of general use would be against public policy and void. It was doubtless within the power of Congress to confer such right of restriction upon a patentee. Has it done so?"

Then, after discussing the patent statute (and comparing it with the copyright statutes), the Court concluded that it must answer this question in the negative.

Thus the holding of *Bauer v. O'Donnell* is merely that there is nothing in the patent law that can save an attempt to fix resale prices of patented articles from the rule of public policy applicable to such attempts in the case of unpatented articles.

This doctrine was reaffirmed in *Straus v. Victor Talking Machine Co.*, 243 U. S. 490,¹ and *Boston Store v. American Graphophone Co.*, 246 U. S. 8. It is not applicable in any way to the present case.

(2) *Restrictions relating to Unpatented Supplies to be Used with a Patented Machine:*

The decision which established this exception is *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502. It specifically overruled *Henry v. Dick*, 224 U. S. 1, which had held that the general rule to which we have referred was applicable even to restrictions which apply not to the use of the machine that is covered by the patent, but to supplies not covered by that patent.

In this *Motion Picture* case a motion picture machine was sold by a licensee of the plaintiff (patent owner) with a notice that it could be used only with films leased from licensees of the plaintiff and containing the invention

¹ In *Straus v. Victor Talking Machine Co.* an attempt had been made to avoid the principle announced in *Bauer v. O'Donnell* by cloaking what was really a sale in terms indicating a mere license to use; but the Court looked through this disguise and treated the transaction as what it really was, a sale.

covered by another of plaintiff's patents (which had expired). The specific question considered by this Court was (p. 508):

"May a patentee or his assignee license another to manufacture and sell a patented machine and by a mere notice attached to it limit its use by the purchaser or by the purchaser's lessee, to films which are no part of the patented machine, and which are not patented?"

In answering this question in the negative, the Court placed its decision squarely on the ground that the patent law does not grant any monopoly *except a monopoly of the invention which the claims of the patent cover*, and that to allow a patentee, by such a restriction as to the use of supplies with his patented machine, to extend his monopoly to include articles not covered by the patent, is an unjustified restraint of trade and against public policy.

Thus the Court said (p. 518):

"Such a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired, and because to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside of the patent in suit and of the patent law as we have interpreted it."

This statement alone makes it clear that the Court was confining its condemnation to restrictions of the character there before it, and that it had no intention of condemning restrictions, such as those here involved, upon the use of the patented machine itself. At other points in the opinion, this distinction is brought out even more forcibly. For example, at page 512, after referring to R. S. § 4884 which provides that every patent "shall contain . . . a grant to the patentee, his heirs or assigns . . . of

the exclusive right to . . . use . . . the invention or discovery", the Court said:

"Plainly, this language of the statute and the established rules to which we have referred restrict the patent granted on a machine, such as we have in this case, to the mechanism described in the patent as necessary to produce the described results. It is not concerned with and has nothing to do with the materials with which or on which the machines operates. The grant is of the exclusive right to use the mechanism to produce the result with any appropriate material, and the materials with which the machine is operated are no part of the patented machine or of the combination which produces the patented result. *The difference is clear and vital between the exclusive right to use the machine which the law gives to the inventor and the right to use it exclusively with prescribed materials to which such a license notice as we have here seeks to restrict it.* The restrictions of the law relate to the useful and novel features of the machine which are described in the claims of the patent, they have nothing to do with the materials used in the operation of the machine; while the notice restrictions have nothing to do with the invention which is patented but relate wholly to the materials to be used with it. Both in form and in substance the notice attempts a restriction upon the use of the supplies only and it cannot with any regard to propriety in the use of language be termed a *restriction upon the use of the machine itself.*"

It seems obvious that if this Court in its earlier decision in *Bauer v. O'Donnell*, 229 U. S. 1, *supra*, (holding resale price restrictions invalid) had meant to hold, as petitioner implies, that *all* restrictions accompanying the sale of a patented device were invalid, it would not have placed this *Motion Picture* decision on the ground that the particular restrictions before it were restrictions "upon the use of supplies only" and not "upon the use of the machine itself." A mere statement of the broad proposition for which petitioner now contends would have sufficed. The great care

that this Court took in this decision to distinguish between these two different kinds of restrictions, indicates definitely that neither the *Bauer v. O'Donnell* decision nor this one, was intended to change the general rule as to the enforceability of restrictions, such as we have in the case at bar, which are actually "upon the use of the machine itself" and therefore *clearly within the patent monopoly*.

The *Motion Picture* case, and also the more recent *Carbice* case (*Carbice Corp. v. American Corp.*, 283 U. S. 27, and on rehearing page 420¹), by drawing a sharp distinction between restrictions on the use of unpatented supplies and restrictions relating to the use of the patented machine itself, constitute a most persuasive argument for the validity of the restriction here involved and are in accord with the authorities upon which we rely.

The restriction in the instant case comes under the general rule and is enforceable:

The restriction involved in this case, limiting the field in which the patented amplifiers may be used, is a restriction *upon the use of the patented machine itself*. Therefore, it falls within the general rule and is enforceable under the patent law.

Independent Wireless Telegraph Co., et al. v. Radio Corp. of America, et al., 269 U. S. 459, which came here on a question of joinder of parties, is of interest on this point. The defendant had purchased patented vacuum

¹ Petitioner merely cites (Brief, p. 25) the *Carbice* case as being to the "same effect" as the *Motion Picture* case. In the opinion on rehearing in the *Carbice* case this Court stated (p. 421) that in the first decision "we held that the bill should be dismissed on the ground that the owner of a patent may not limit its use so as to require that *unpatented* materials employed in practicing the invention shall be purchased from the licensor . . .". See also pages 31 to 33 of the first opinion discussing the *Motion Picture* case and basing the decision squarely on that case.

tubes to which were applied exactly the same restrictive notice as to field of use, that we are considering in this case. The infringement charged was the defendant's use of those vacuum tubes in the commercial field of radio communication between ship and shore for pay which was outside of the licensed field. The Court was not required to pass upon the validity of that restriction and did not do so. But in the statement of the case this Court did not suggest any doubt that it was valid. The Court said (p. 461):

“ * * * there came from the DeForest Company to the Radio Corporation, exclusive rights to use and sell in the United States, for radio purposes, apparatus for transmission of messages, and especially for use between ship and shore for pay.

“The defendant, the Independent Wireless Company, has bought the same apparatus with the lawful right to use it in the amateur and experimental field only. The apparatus thus bought bears a label with such a limitation on its use. The charge in the bill is that the Independent Company is using the apparatus, or the part of it called ‘radio tubes’, in the commercial radio field between ship and shore for pay and thus is violating the Radio Corporation’s rights in this field.”

The statement that defendant bought the apparatus *“with the lawful right to use it in the amateur and experimental field only”* is believed to be significant.

The Decisions Relied upon by Petitioner:

As we have indicated, petitioner's primary reliance in support of its contention that the restriction which we are considering, is invalid and unenforceable even against a purchaser with notice, is upon broad language used by this Court to the effect that the authorized sale of a patented device takes it outside of the patent monopoly. Petitioner seeks to construe this language as meaning that there is nothing that the patentee can do to prevent this result; that the implication that an unrestricted license

goes with the passage of title cannot be overcome in any way, not even by specific notice to the purchaser at the time of the sale that only a restricted license is granted.

We do not believe that this Court ever intended the language in question to be interpreted as broadly as this but quite the contrary. Construed in the light of the cases in which it originated, we believe that this language should be confined to unrestricted sales, which concededly have the effect stated.

1. *Cases relating to Time of Use:*

The cases of this character to which petitioner refers,¹ like *Mitchell v. Hawley*, 16 Wall. 544,² involved questions arising out of extensions of the term of patents, under Section 18 of the Patent Act of 1836, or special Acts of a similar character.³ The decisions in the first two of these cases, cited by petitioner, *Wilson v. Rousseau*, 4 How. 646 and *Simpson v. Wilson*, 4 How. 709, were confined to an interpretation of this particular Section of the Act of 1836. They held that the benefit of an extension obtained under it did not inure to one who was a *territorial assignee* for the original term of the patent because the purpose of the Act was to benefit the inventor and not his assignees, but that the last sentence of the Section meant that one who had purchased a patented machine in the ordinary course (*i. e.*, without any restriction as to the length of time it could be used) from the patent owner during the original term, could continue to use it during the extended term (p. 684).⁴ These decisions, confined as they are to the interpretation of a particular

¹ Brief, pages 13, 14.

² *Supra*, pages 16-19, 29.

³ *Supra*, page 17.

⁴ It will be recalled that the last sentence of the statute expressly provided that "the benefit of such renewal shall extend to *assignees and grantees of the right to use the thing patented*, to the extent of their respective interests therein."

statute, give no support to petitioner's proposition that "the sale of a patented chattel exhausts the patent rights of the seller".¹

The first of the cases from which petitioner quotes in attempting to support this proposition is *Bloomer v. McQuewan*, 14 How. 539. It is the first case in which this Court used the broad language upon which petitioner relies. The respondents had purchased the right to construct and use certain patented machines, without limitation. They had constructed some of those machines, and continued to use them after the expiration of the original term of the patent. The term of the patent was extended by a special Act of Congress. The patent owner sought to enjoin respondents' further use of these machines.

Under the general provisions of the Act of 1836 relating to extensions of patents² respondents would have had the right to continue to use these machines during the extended term because they had previously acquired an unlimited "right to use" them. *Wilson v. Rousseau*, 4 How. 646, *supra*. The question before the Court was whether that same situation obtained under the special Act under which this particular patent had been extended. The Court held that it did, finding that Congress intended the special Act to be subject to the general provisions of Section 18 of the Act of 1836. The Court said (pp. 553, 554):

"The right to construct and use these planing machines, had been purchased and paid for without any limitation as to the time for which they were to be used. They were the property of the respondents. Their only value consists in their use. And a special act of congress, passed afterwards, depriving the appellees of the right to use them, certainly could not be regarded as due process of law.

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¹ Brief, page 13.

² *Supra*, page 17. See particularly the sentence of this Act quoted in footnote on the preceding page.

" . . . we are of opinion that this special act of congress does not, and was not intended to interfere with rights of property before acquired; but that it leaves them as they stood during the extension under the general law [relating to extensions]."

Accordingly, the injunction sought by the patent owner was denied. The Court's reference to the effect of a sale, which petitioner quotes,¹ was merely by way of repeating the reason given in *Wilson v. Rousseau, supra*, for the holding that the last sentence of Section 18 of the Statute of 1836 applied to ordinary (unrestricted) purchasers of machines during the original term of the patent, but not to territorial assignees or grantees of the patent. The Court's entire statement in this regard (of which petitioner has quoted only the last paragraph) is as follows (p. 549):

"Now, the act of 1836, in express terms, gives the benefit of the extension authorized by that law to the assignees and grantees of the right to use the thing patented to the extent of their respective interests therein. And under this provision it was decided, in the case of *Wilson v. Rousseau*, 4 Howard 688, that the party who had purchased and was using this planing machine during the original term for which the patent was granted, had a right to continue the use during the extension. And the distinction is there taken between the grant of the right to make and vend the machine, and the grant of the right to use it.

"The distinction is a plain one. The franchise which the patent grants, consist altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from, and ex-

¹ Brief, page 14.

exercised under, the protection of the United States. And the interest he acquires, necessarily terminates at the time limited for its continuance by the law which created it. The patentee cannot sell it for a longer time. And the purchaser buys with reference to that period; the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.

"But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of congress."

This last paragraph must be construed with its context and in light of the provision of the statute which gave to those who had previously acquired "the right to use" a machine "the benefit of the renewal". As so construed, it is clearly confined to the effect of ordinary *unrestricted* sales, as was subsequently held in *Mitchell v. Hawley*, 16 Wall. 544, upon which we rely.¹ The statement has nothing to do with sales of the character with which we are here concerned, namely, sales accompanied by notice to the purchaser that he receives with the machine only a limited license to use it.

It should also be observed that the *Bloomer* case did not involve a sale of the patented machines but merely the license or "right to construct and use" those machines, as stated in the opinion.² Therefore, there was no occasion

¹ *Supra*, pages 16-19, 29.

² *Supra*, page 39.

for the Court to discuss the effect of such a sale and the statement made is in fact a *dictum*. Nor should it be forgotten that this was the first case in which the Court used the broad language upon which petitioner relies and that the decision was based on the express provision of the Act of 1836 that gave the benefit of patent extensions to all persons who had before acquired the "right to use the thing patented".¹

The two *Wilson* cases and the *Bloomer* case are the only cases relating to time of use, which petitioner mentions. Petitioner makes no reference in this connection to the decision of this Court in the only such case which is really pertinent, namely, *Mitchell v. Hawley*, 16 Wall. 544. And that case, which is the latest of the group, holds, as we have seen, that restrictions limiting the time of use of the device are valid and enforceable against a purchaser who is chargeable with knowledge of those restrictions. Moreover, as we shall see, in every subsequent case in which this Court has used the broad language, which originated under the special circumstances in the *Bloomer* case, that language was unnecessary to the decision.

2. Cases relating to Place of Use:

The first of these cases relied upon by petitioner is *Adams v. Burke*, 84 U. S. 453, 459. In that case a Boston manufacturer was a territorial assignee of the patent for a coffin lid, having acquired from the patentees "all the right, title, and interest which the said patentees had in the invention described in the said letters-patent, for, to, and in a circle whose radius is ten miles, having the city of Boston as a center" (p. 458). He sold

¹ It is of considerable interest to note that the statute itself appears to recognize the difference between mere ownership of a patented article and the right to use it because it gave the benefit of the patent extension to any one who had "the right to use the thing patented" quite irrespective of his title to the thing itself.

one of those coffin lids *unconditionally* to the defendant in Boston, as he, being the assignee of the patent for that territory, had a perfect right to do. Defendant used that lid outside of the ten mile limit and was charged by the patentees with infringement for so doing. Since the defendant had bought it without condition from an assignee who had the right to make such a sale, this Court refused relief to the patentee. The Court specifically held that the lid had been "lawfully made and sold" (17 Wall. 453, 457). It is in the light of these facts that the following language quoted by petitioner¹ from this decision, must be construed:

"But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the Court, passes without the limit of the monopoly." (Note particularly that the Court here cites both *Bloomer v. McQuewan* and *Mitchell v. Hawley*, *supra*.)

As so construed, it clearly applies only to *unconditional* sales. Otherwise, the Court would not have taken the pains at the end of its opinion (p. 457) to point out that—

"when they [patented devices] are once lawfully made and sold, there is no restriction on their *use*² to be *implied* for the benefit of the patentee or his assignees or licensees."

In the case at bar, we are not dealing with *implied* restrictions but with *express* restrictions of which the purchaser is notified at the time of the sale.

¹ Brief, pages 14, 15.

² The word *use* is italicized in the original, but the word *implied* is not.

Hobbie v. Jennison, 149 U. S. 355, referred to by petitioner at page 15 of its brief, involved substantially the same state of facts and the same question as *Adams v. Burke*, *supra*. The only difference was that in this case the suit was brought against the territorial assignee rather than his vendee. The decision of the Court was the same. Since the territorial assignee had absolute title to the patent for his particular territory, it was held that he could sell the patented articles in that territory without imposing any restrictions upon the place where the purchaser might use them, and that he could do so even if he knew that the purchaser intended to use them outside of that territory. This defendant's right to vend in his particular territory, being unrestricted, is to be distinguished from the right to vend "for use in a particular place", to which this Court referred in *Bloomer v. McQuewan*.¹

This *Hobbie v. Jennison* decision is of particular interest because of the Court's comment (pp. 363, 364):

"It is easy for a patentee to protect himself and his assignees, when he conveys exclusive rights under the patent for particular territory. He can take care to bind every licensee or assignee, if he gives him the right to sell articles made under the patent, by imposing conditions which will prevent any other licensee or assignee from being interfered with. There is no condition or restriction in the present case in the title of the defendant."

This would seem to indicate very definitely that it is possible to impose effective restrictions upon the use of a patented device, at the time of its sale.

Keeler v. Standard Folding Bed Co., 157 U. S. 659, which is cited and quoted from at pages 15, 16 of petitioner's brief, is on all fours with *Adams v. Burke*, *supra*, and need not be discussed separately. The defendant had purchased the patented articles, free from restrictions, from a territorial assignee who had the right to make such a sale. Therefore, those articles had passed outside of the patent monopoly.

¹ *Supra*, page 40.

3. "Attempted Restrictions on Resale Prices and Use":

Under this heading, petitioner¹ groups the decisions of this Court in *Bauer v. O'Donnell*, 229 U. S. 1;² *Straus v. Victor Talking Machine Co.*, 243 U. S. 490;³ *Boston Store v. American Graphophone Co.*, 246 U. S. 8,⁴ and *Motion Picture Patents v. Universal Film Mfg. Co.*, 243 U. S. 502.⁵

Petitioner correctly says of the first three of these decisions that they "were concerned with the efficacy of attempted resale price restrictions". It is because they were concerned only with attempted restrictions of that particular character, that they are not pertinent here. As we have seen,⁶ the Court held in those cases that resale price restrictions were void as beyond the protection and purpose of the patent act and as against public policy. Where such a restriction, which is void *per se*, is the only one attempted to be attached to the sale of a patented article, the result is the same as if the sale had been unrestricted. An unlimited license is implied and the article passes outside of the patent monopoly. But this is not so where the restriction itself is a proper exercise of the patentee's exclusive rights, as is the restriction upon the use of the patented machine itself, with which we are concerned in this case. In none of the resale price cases did the Court have occasion to consider restrictions of this character and it did not do so.

At page 17 of its brief, petitioner quotes from the decision in the *Boston Store* case, 246 U. S. 8, 23, a portion of this Court's comment on the *Bauer v. O'Donnell* decision.

¹ Brief, page 16.

² *Supra*, pages 20, 33.

³ *Supra*, pages 32, 33.

⁴ *Supra*, page 33.

⁵ The old Circuit Court case of *Washing Mach. Co. v. Earle*, 29 Fed. Cas. 332 (Case No. 17,219), referred to by petitioner on pages 8 and 36-37 of its brief, is merely one of a number of similar cases, decided before this Court's decision in *Mitchell v. Hawley*, and involved an unrestricted sale by a licensee.

⁶ *Supra*, pages 32, 33.

In this quotation, petitioner omits the statement of the Court (p. 23, bottom):

"As the case dealt with the right to vend under the patent law, the Court reserved any express statement concerning the scope of the right to use conferred by that law."

That statement would seem completely to dispose of *Bauer v. O'Donnell* as a precedent for the instant case.

Concerning the *Motion Picture Patents* case, petitioner says (p. 16) that it was concerned "with attempted limitations on use" (italics petitioner's). That is true only in a very broad sense, for as we have seen, the restrictions there involved related *not* to "the use of the [patented] machine itself", but to "the use of the supplies only", and specifically to the use of films which were not covered by the machine patent in suit but by a separate, *expired* patent. And it was upon the basis of that distinction, that the Court held those restrictions unenforceable under the patent law.¹

In reference to the *Motion Picture Patents* decision, this Court did say, in its *Boston Store* decision, 246 U. S. 8, 25, as quoted by petitioner (p. 17):

"Reiterating the ruling in the two last cases [referring to *Bauer v. O'Donnell* and *Straus v. Victor Talk-*

¹ Petitioner's partial quotation from the *Motion Picture Patents* case at the top of page 26 of its brief might perhaps be misleading. Petitioner there states that in that decision the Court held "that its previous decision in *Bauer v. O'Donnell* had interpreted the exercise of the right to vend, as freeing the article 'of every restriction which the vendor may attempt to put upon it' (*Motion Picture Patents* case, 243 U. S. 502, 516)." Petitioner should have started its quotation earlier, for what the Court actually said was that in *Bauer v. O'Donnell*, it had declared that (p. 516):

"the right to vend is exhausted by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." (Emphasis ours.)

ing Machine Co.] it was again decided that, as by virtue of the patent law, one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not, by qualifying restrictions as to use, keep under the patent monopoly a subject to which the monopoly no longer applied."

The "subject to which the monopoly no longer applied", mentioned in the last two lines of this statement, clearly has reference to the films (supplies), the patent upon which had expired, but which the plaintiff was attempting to monopolize under the unexpired patent upon the machine. The statement that the Court had had in the *Motion Picture Patents* decision that one who had sold a patented machine "had thus placed the machine so sold beyond the confines of the patent law", is, we believe, inaccurate. If, at the time of that decision, the Court had been of *that* view, it certainly would not have gone to such pains in that decision to explain that (p. 512)¹—

"The difference is clear and vital between the exclusive right to use the machine which the law gives the inventor and the right to use it exclusively with prescribed materials to which such a license notice as we have here seeks to restrict it",

and it would not have held the restrictions there involved (p. 518)—

"invalid because such a film is obviously not any part of the invention of the patent in suit."

And, of course, the *Boston Store* case did not require any ruling upon the validity of restrictions upon the use of the patented machine, for it was concerned only with restrictions attempting to fix resale prices.

¹ *Supra*, page 35.

The last of the cases cited by petitioner in support of its position,¹ is *United States v. General Electric Company, et al.*, 272 U. S. 476, 489, where this Court again repeated the broad statement of the earlier cases. This case did not involve any question relating to the validity of restrictions imposed at the time of the sale. The restriction there in controversy was one contained in a license granted by a patentee to a manufacturing licensee fixing the price at which the latter could sell patented articles made by it under the license. The Court held that restriction *valid*, specifically reaffirming the doctrine of *Bement v. National Harrow Co.*, 186 U. S. 70.²

With regard to each of the decisions of this Court, from which petitioner quotes broad language in attempted support of its position, we might say, as this Court did of a case cited by one of the litigants in *Plumley v. Massachusetts*, 155 U. S. 461, 474:

"It is sufficient to say . . . that it did not in form or in substance present the particular question now under consideration."

Similarly, in *Tyson v. Banton*, 273 U. S. 418, 433, this Court said:

"There is some general language in the [cited] opinion which, superficially, might seem broad enough to cover cases like the present one. It was said, for example (p. 126): 'Property does become clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large.' Literally, that would include all the large industries and some small ones; but in accordance with the well settled rule the words must be limited to the case under consideration."³

The broad language which petitioner quotes from this Court's decisions is substantially the same as that used

¹ Brief, page 30.

² *Supra*, page 25.

³ Other cases to the same effect include *Cohens v. Virginia*, 5 U. S. 82, 97, 98; *Weaver v. Palmer Bros. Co.*, 270 U. S. 402, 414; *Home Bldg. & Loan Ass'n v. Blaisdell*, 290 U. S. 398, 434.

by *Robinson on Patents*, Sec. 824,¹ in stating that the usual sale of a patented article "delivers it from all the restrictions of the patent".

But Robinson adds, as this Court did, in effect, in *Mitchell v. Hawley*,² and as it might well have done in the decisions cited by petitioner had it been considering conditional or restricted sales, as well as unconditional ones:

"To have that effect, however, the sale must be a lawful and *unconditional* sale."

And he then proceeds to point out that—

"any person having the right to sell may at the time of sale restrict the use of his vendee within specific boundaries of time or place or method, and these will then become the measure of the implied license arising from the sale."

That, we believe, is the true rule.

This Court has never held otherwise with respect to restrictions *upon the use of the patented device itself*. And it has held restrictions, limiting the *time* of their use, valid and enforceable. *Mitchell v. Hawley*, 16 Wall. 544.³ We believe that on the same reasoning, and under the same general rule, reasonable restrictions on the *field* of use, such as that in the case at bar, should be upheld.

Other Authorities Cited by Petitioner:

On page 27, petitioner quotes all of the following quotation from the 1937 Edition of Williston on Contracts, Volume 5, paragraph 1647, pages 4630-31, *except* the next to the last sentence which we have put in italics:

"* * * It seems, indeed, to have been *suggested* by the Supreme Court of the United States, that as to patented articles there is an inherent inconsistency in selling property and imposing a restriction on the

¹ *Supra*, page 26.

² *Supra*, pages 16-19, 38.

³ *Supra*, pages 16-19, 38.

buyer.^{14 1} This can only mean, however, that the patent laws give no protection to restrictive promises exacted from a buyer and that they must stand or fall under the common law as if the article was unpatented. *Probably this depends on whether such a contract or condition is part of a scheme to obtain a monopoly wider than that of the patented article.*¹⁵ Certainly this result cannot be achieved by mere notices on patented articles.¹⁶

In note 15 Williston cites *Carbice Corp. v. American Corp.*, 283 U. S. 27. And, in note 16, he cites, in addition to the *Carbice* case, *Straus v. Victor Talking Machine Co.*, 243 U. S. 490, and the *Motion Picture Patents* case, 243 U. S. 502.

As Williston says in note 15, the *Carbice* case holds that a patentee cannot lawfully exact as a condition of a license that *unpatented* materials used in connection with the invention shall be purchased exclusively from him, and that, therefore, one supplying such *unpatented* accessories to the licensee to be used in disregard of the condition is not liable as a contributory infringer. Thus, it clearly appears from the complete quotation from Williston that he is of the opinion that there is nothing inconsistent in "selling property and imposing a restriction on the buyer", and he believes that restrictions which are within the patent monopoly and not "part of a scheme to obtain a monopoly wider than that of the patented article" as in the *Motion Picture* and *Carbice* cases, are valid and enforceable.² It is perhaps unnecessary to state that petitioner's partial quotation from this authoritative work is misleading in the extreme. In the same chapter

¹ Note that Williston does not say that this Court has held this, but only that it has "suggested" it; also, that Williston cites in his note 14 *Boston Stores v. American Graphophone Co.*, 246 U. S. 8, which, as we have seen (*supra*, pp. 45-46) involved a resale price restriction.

² On page 8 of its brief, petitioner is at great pains to create the impression that the patented amplifier here involved is "a standard article of commerce" such as was the solid carbon dioxide sought to be restricted in the

of Williston's work (paragraph 1642 which precedes the paragraph from which petitioner quotes) Williston deals generally with restrictions accompanying the sale of property. He says on page 4603:

"* * * Similarly, a buyer may make a reasonable contract restricting himself from using the property which he has bought in a way which would compete with the seller, or be obnoxious to him."

and cites numerous cases in support thereof. And again, on pages 4604 and 4605, Williston states:

"The only limits imposed by the law on the owner of property restricting his power to exact contracts from a subsequent purchaser to refrain from using the property in a certain way are those imposed by public policy, and though public policy forbids unreasonable restraint of trade, and therefore forbids a system of contracts attempting to control prices on resale, *there seems no reason why it should prohibit contracts which reasonably protect a business of either buyer or seller without tending to affect the public injuriously by monopoly or enhancement of prices.*"¹

Carbice case. The solid carbon dioxide was, of course, not patented and was well known. All that petitioner is really saying is that the patented amplifiers here involved have been extensively used, as it has elsewhere admitted.

¹On page 11 of its brief, petitioner makes the suggestion that the decision below would, for example, enable a patentee to prevent the owner of a patented pocket lighter from using it for lighting cigars while permitting its use for lighting cigarettes. As to this, it is perhaps enough to say that the use is the same and, what is more, the restriction would be wholly unreasonable and capricious. As Williston makes clear, even at common law where no statutory monopoly is involved, it is only reasonable restrictions which will be enforced, such as those in the present case, "which reasonably protect a business of either buyer or seller without tending to affect the public injuriously or enhancement of prices". See also *Fred Waring v. WDAS Broadcasting Station, Inc.* (Pennsylvania Supreme Court), 35 U. S. P. Q. 272, *infra*, page 61.

Also, on page 27 of its brief, petitioner quotes two short sentences from page 1002 of Professor Chafee's scholarly article of nearly one hundred pages on *Equitable Servitudes on Chattels* in 41 *Harvard Law Review* 945. We commend this article to the Court, and suggest that it establishes a very strong case for the enforcement of reasonable restrictions, such as that involved in the present case, on the use of chattels.

Again on page 27 of its brief, petitioner quotes the following sentence from Section 347 of *Walker on Patents*, 6th Edition:

"But the purchaser of a patented apparatus, from the owner of the patent thereon, acquires whatever right that patent covers, to use that apparatus in accordance therewith, even where it is capable of a different use,²² and by such sale the apparatus is thereby rendered free of every restriction which the patentee may attempt to put upon it.^{22a}"

Walker cites in note 22 only the case of *Edison Electric Light Co. v. Peninsular Co.*, 101 Fed. 831 (C. C. A. 6), in which, as clearly appears from the opinion, the sale of the apparatus was *without reservation of any kind*. Petitioner omits any reference to this case in the quotation in its brief. In note 22a, Walker cites, as petitioner indicates, *Straus v. Victor Talking Machine Co.*, 243 U. S. 490 and the *Motion Picture Patents* case, 243 U. S. 502, which, as we have seen, involved, respectively, restrictions on the resale price of the article sold and on unpatented supplies. Petitioner omits to quote the following sentence which appears earlier in the same paragraph in Walker:

"Nor does a sale, coupled with an express license to use, give any right to use after the license has been forfeited or has expired.¹⁷ The purchaser of a patented thing gets no other right to use it than such right as the seller had an express or an implied right to convey.¹⁸"

In note 17 Walker cites the case of *Porter Needle Co. v. National Needle Co.*, 17 Fed. 536, to which we have

previously referred¹ and in which the use of certain patented machines, which had been sold conditioned upon payment of royalty up to a certain date, was thereafter enjoined, since no agreement concerning royalties had been made after the expiration of the stipulated period. And in note 18, Walker cites *International Pavement Co. v. Richardson*, 75 Fed. 590, 594, in which the defendant was enjoined from using or disposing of certain patented machines the title to which he had acquired by sale from a licensee, the defendant having failed to pay the reserved royalty to the patentee.

There is nothing inconsistent between the sale of a patented device and the simultaneous grant of a restricted license limiting its use to a particular field:

It is, of course, clearly established that the ownership of a *patented* device is entirely distinct from the right under the patent to sell or to use that device, and does not, *per se*, imply any such right. We have already referred to the statement of this Court in *United States v. General Electric Co., et al.*, 272 U. S. 476, 490, that the holder of a license to make and use the patented devices but not to sell them, *owns* the devices made under that license and may use them, but that—

“• • • if he *sells* them, he *infringes* the right of the patentee, and may be held for damages and enjoined” (*supra*, p. 13).

Concerning the right of use, Judge Nixon said in *Wortendyke v. White*, 2 B. & A. 25, 28:

“Confusion on this subject, has, doubtless, arisen from not distinguishing between the ownership of a patented machine and the right to use it. The one does not always include the other.”

An ordinary infringer has title to the machine which he has made or acquired, but he may be enjoined from using it.

¹ *Supra*, page 31.

Similarly in *Belknap v. Schild*, 161 U. S. 10, it was stated (p. 24):

"Title in the thing manufactured does not give the right to use the patented invention. . . ."

To illustrate the application of this principle, we shall take the case of a patentee who has a patent for an amplifier, and who is engaged in the business of supplying amplifiers of his patent to theatres for use in talking picture equipment. Under the patent laws this patentee has the right "to exclude everyone from making, using or vending the thing patented, without . . . [his] permission". *Bloomer v. McQuewan*, 14 How, 539, 549.¹ He is unwilling to permit anyone to use the patented invention in the theatre field upon any terms. However, for a reasonable consideration, he is willing to permit the patented amplifiers to be used in homes, where they will not interfere with his theatre supply business.

There are several ways in which this patentee can permit another to use one of the patented amplifiers in his home, and still retain the right under the patent to enjoin as an infringement the use of that amplifier in a theatre.

One way is for him to license the prospective user for a lump sum, to make one of the patented amplifiers and to use it in his home only. The licensee will own the amplifier which he makes under this license. But, as pointed out above, the ownership does not carry with it any right to use the patented thing. The right to use it comes solely from the license to use, and is restricted to the terms of that license. Therefore, if the owner uses the patented amplifier outside of the terms of that license (for example, in a theatre) he is liable as an infringer. We think that there can be no dissent from this proposition.

Another way in which the patentee can accomplish the same result is to license the prospective user, again for a lump sum, to have one of the patented amplifiers made

¹ *Supra*, page 12.

for him by some third person, and to use that amplifier in his home only. The same principle would apply, as before, and again the patentee's right to hold the licensee liable as an infringer, if he exceeded the restrictions of his license to use, could not be questioned.

But suppose that the licensee, instead of making the amplifier which he is to use under his license, or having some third party make it for him, desires to purchase it from the patentee himself, and that the patentee is willing to sell it to him. There would appear to be no reason why the patentee, for a lump sum, could not grant the licensee a restricted license to use one of the patented amplifiers only in his home, and at the same time convey to him the amplifier to be used under that license, without sacrificing his right to enforce the restrictions of the license. Surely, the carefully restricted express license which the patentee granted and the licensee accepted, should not be denuded of its restrictions merely because title to the vehicle for the enjoyment of that license happened to pass from the patentee to the licensee, instead of from some third person to the licensee, with the patentee's permission.

It is true that in such a transaction, the patentee would have received full consideration for everything that he had sold, that is, full consideration for the restricted license that he granted and, we will assume, a reasonable manufacturing profit upon the amplifier itself. But he would not have sold a license to use the amplifier in a theatre, and he would not have received any consideration for such a license. As, was said in *Porter Needle Co. v. National Needle Co.*; 17 Fed. 536, 537,¹

"the mere value of a patented machine is often
 • • • insignificant in comparison with the value of
 its use."

Furnishing the patented amplifiers to theatres was this patentee's livelihood and he was unwilling to grant

¹ *Supra*, page 31.

to anyone for any consideration any right under his patent, which would interfere with that business. If he had been willing to fix any terms upon which he would permit others to use the patented amplifiers in that field, undoubtedly those terms would have involved a very much greater payment than the one he accepted for the license for home use only. Clearly the receipt by the patentee of the consideration he asked for permitting a *specified restricted use* of his patented device should not be interpreted as consideration for permitting any and every use of it.

The transaction which we have just described as comprising the grant of a restricted license to use a patented device only in a specified field, and the simultaneous sale to the licensee of a device to be used under the license, differs in form only, from the transaction which petitioner says gives the purchaser an unrestricted license, namely, the sale by a patentee of one of his patented devices with notice brought home to the purchaser that he is licensed to use it only in a specified field. In the latter case, as in the former, there would appear to be no sound reason why the restricted character of the license granted should be affected in any way by the circumstance that the grant is accompanied by the sale of the patented device.

Ownership of a patented device is not inconsistent with the possession by the owner of only a restricted right to use that device. The mere fact that the ownership was acquired from the patentee, should not make it so. And, as we have seen, the authorities hold that it does not.

If the restrictions are not in themselves void as against public policy—and reasonable restrictions upon the field of use of the patented machine itself clearly are not because they are *within* the monopoly granted to the patentee—they are enforceable under the patent law against a purchaser with notice of them.

The restrictions involved in the present case are not contrary to public policy:

The argument of public policy, upon which are based the decisions of this Court regarding attempts to fix resale prices or to extend the scope of a patent monopoly beyond the statutory grant by compelling the purchaser of the machine to buy his supplies from the patentee, has no application whatever to restrictions of the sort here involved.

Obviously there is no public policy which requires the owner of a patent to allow others to use the patented invention itself against his will in any field.

"If he [patentee] sees fit, he may reserve to himself the exclusive use of his invention or discovery. If he will neither use his device nor permit others to use it, he has but suppressed his own, . . . his title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it." *Paper Bag Patent Case*, 210 U. S. 405; 425, quoting from *Bement v. National Harrow Co.*, 186 U. S. 70, 90.

Particularly is there no public policy which prevents a patentee from restricting the use of the patented devices sold by him to specified fields, so as to preserve his right to the exclusive enjoyment of his invention in the field which he is himself cultivating—in this case the field of commercial talking motion pictures. We have already pointed out that public policy should favor the enforceability of such restrictions.¹

The circumstances surrounding the granting of the license in this case to American Transformer Company, under the patents here in suit (and others), are illustrative of this point.

As is true of many inventions, the inventions of the patents in suit are useful for many purposes and in a number or fields. We have previously referred to the extensive

¹ *Supra*, page 23.

development work done by the Telephone Company and the Western Electric Company beginning in 1912 when the electronic tube became available to them. This work was carried on at great expense as was also the similar intensive development work of the General Electric Company and its associated companies. As usually occurs in the early development of any new art, conflicting rights arose which made it impossible as a practical matter to develop the new art commercially without infringing valid patents adversely held. Therefore, in order to make fully available to the public the great benefits of the new art it was necessary for the companies, which had made the major contributions to the art, to enter into a license arrangement permitting each to use in its own business field or fields the inventions of the others. Consequently, the cross license agreement¹ between the Telephone Company and the General Electric Company was entered into in July, 1920, and certain rights thereunder were extended,² to the Western Electric Company, and the Radio Corporation of America, the latter company having been formed in the meantime to engage primarily in the business of radio communication for tolls.³

As appears from these agreements, each party granted rights under its patents to the others in certain specified fields only, the restrictions being necessary to protect the business of each licensor in its own particular business fields.

For example, Schairer, Vice President of the Radio Corporation, testified that⁴ his company was unwilling to grant licenses or to sell apparatus for use in the business of radio communication for tolls which was a new business and the principal business for which the Radio Corporation was formed.

The only practical way to make the apparatus available to the public for amateur and experimental purposes, such for example as broadcast reception, was to sell it with restrictions on its use at a relatively low price, the

¹ III, 1328.

² III, 1356.

³ I, 515.

⁴ I, 515 to 517.

return from which was in no way commensurate with the benefit which the purchaser would receive if he were permitted to use the apparatus for commercial purposes, such as wire or wireless telephony for tolls, talking motion pictures in theatres for profit, etc.¹

Because of this situation, it was provided in the agreement of July, 1920 between the Telephone Company and the General Electric Company,² as follows:

"4. Each party agrees that, so far as it is enabled so to do, it will in disposing of devices embodying inventions pertaining or applicable to vacuum tubes, or to generating, modifying, amplifying, transmitting or receiving electro-magnetic waves, or other devices or material the unrestricted sale of which would deprive the other party of rights to which it is entitled hereunder, use such precautions by contracts, restricted licenses or otherwise as may be necessary or advisable in order to prevent its customers or others from acquiring (by acquisition of devices from it or otherwise) licenses to use the same which the party disposing thereof has no right to grant."

This provision was also included in the modification of the same agreement entered into in July, 1926³ and in the later substitute agreement of July 1, 1932⁴ which was approved by the Government in the settlement of the Government suits (*United States of Am. v. Radio Corp. of Am. et al.*). The stipulation approved by the Government states:⁵

"The petitioner, by its Department of Justice, has examined all of the Agreements attached hereto, and also the above-mentioned Substitute License Agreement (B2) and Agreements Relating Thereto, and finds no objection to them."

This Agreement (B2), thus approved by the Government, contains a number of provisions granting licenses

¹ I, 516.

² III, 1347, Article VI, Par. 4.

³ III, 1404, Article VI, Sec. 4.

⁴ II, 784, Article VII, Sec. 4.

⁵ II, 796.

restricted to various fields of use,¹ as has been stipulated is "common practice where a patented invention is applicable to different uses."²

The restricted licenses, contained in the contracts to which we have referred above, made possible the commercial development of radio broadcasting and broadcast reception in the home, etc. The Radio Corporation entered that field about 1919 and, since that time, has granted many licenses for the manufacture and sale by others of broadcast receivers, employing the inventions of the patents in suit. It was in keeping with its policy of developing and improving radio broadcast receivers, that the Radio Corporation, with the consent of the Telephone Company, in 1927 granted about thirty licenses³ to different manufacturers, limited to the right to make amplifiers embodying these patents and to sell them "only for radio amateur reception, radio experimental reception, and radio broadcast reception".⁴ One of these was the license granted to American Transformer Company, the vendor of petitioner's amplifiers (*id.*).⁵

If petitioner's argument is sound, then such limited licenses, restricted as to fields of use, can no longer be safely made; and a patentee having an important invention useful in many fields but having vital interests to protect in one field, can no longer sell or allow others to

¹ II, 743.

² Stipulation, I, 585, *supra*, page 9.

³ I, 333-335.

⁴ III, 1415.

⁵ Petitioner refers on page 7 of its brief to the cases of *Stanley Co., General Talking Pictures Corp.*, and *Duovac Radio Corp. v. Am. Tel. & Tel. Co. et al.*, 4 F. Supp. 80, on motion for preliminary injunction; and 18 F. Supp. 650, at final hearing. The preliminary injunction was never issued, and at final hearing a permanent injunction was refused. The only appeal which was filed by the plaintiffs was that of the petitioner here, General Talking Pictures Corp. Although its appeal was filed on July 13, 1937, it has never been perfected by printing or filing the record.

sell the patented devices for use in other fields, for, as soon as he does so, he exposes his own vital field to competition by others in the use of his own invention. The public, as well as the patentee, would suffer great damage by any such ruling.

Assume the case where a patented machine is sold by the patentee to a college laboratory with a condition that it should be used only for experimental purposes. Surely, it cannot be successfully contended that such a sale, made upon the express condition that the patented machine was not to be used commercially, gives the purchaser by law the unrestricted right to use the machine commercially in defiance of the restriction. If that were the law no such sale could be made at any reasonable price. Yet that, in substance, is what petitioner is contending in this case.

In short, to sustain the proposition for which petitioner contends, and to hold that a patentee cannot convey with the sale of his patented device, an effectively restricted license limiting the purchaser's right to use that device to specified fields, would be to subvert principles of patent law which have been universally accepted as true from the very beginning of our patent system, which have been sanctioned by many court decisions, and upon which, as a basis, innumerable patent licenses have been and are every day being granted.

There is no public policy, and no principle of law which compels or warrants any such ruling as that now asked by petitioner; and there is no decided case which, properly read, supports any such ruling.

The recent decision by the Pennsylvania Supreme Court in *Fred Waring v. WDAS Broadcasting Station, Inc.*, 35 U. S. Patent Quarterly 272:

This case, which was decided October 8, 1937, is of interest both because of its facts and the court's decision on those facts, and also because of the court's comments upon certain of the decisions of this Court which are relied upon by petitioner in the instant case.

In the cited case, Fred Waring's popular orchestra, the "Pennsylvanians", commanded sizable fees for its rendition over the radio of dance music and the like. It also made phonograph records of its rendition of such selections. These were sold to the public, marked "Not licensed for radio broadcasts". The defendant purchased one of these records. It had a license from the copyright owner to perform for profit the copyrighted selection in question. It did so by broadcasting the record of Waring's rendition of that selection. Waring brought suit to enjoin defendant's doing this. The injunction was granted by the lower court and its decision was affirmed by the Supreme Court of Pennsylvania. The ground adopted by the latter court was that Waring had a property right in his rendition of the selection in question, which was distinct from the rights of the owner of the copyright in the selection itself, and that in broadcasting that rendition from the record, the defendant was competing unfairly with Waring who was in the business of broadcasting that rendition for profit. It held that the "equitable servitude", in the form of restrictions which the license notice placed upon the use to which the record could be put after its sale, was proper and equitable under the circumstances and that the restrictions were enforceable at common law. The following comment of the court is of particular interest here (pp. 277, 278):

" . . . The most common type of case in which such restrictions have been held unenforceable is where an attempt was made by a manufacturer or the owner of a patent, trade mark or copyright to fix a minimum resale price: *Taddy & Co. v. Sterious & Co.*, 1 Ch. (1904) 354; *McGruther v. Pitcher*, 2 Ch. (1904) 306; *F. B. Merrill Co. v. Straus*, 210 U. S. 839; *Park & Sons Co. v. Hartman*, 153 Fed. 24; *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373; *Bauer v. O'Donnell*, 229 U. S. 1; *Strans v. Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store of Chicago v. American Graphophone Co.*, 246 U. S. 8; *Garst v. Hall & Lyon Co.*, 179 Mass. 588; *Garst v. Wissler*, 21 Pa. Superior Ct. 532, or where there was

a provision that the article sold should be used only in connection with other property manufactured by the vendor: *Motion Picture Patents Company v. Universal Film Manufacturing Co.*, 243 U. S. 502; *Carbice Corporation of America v. American Patents Company v. Universal Film*, 283 U. S. 26. These cases depend essentially upon the fact that the attempted restrictions, being in restraint of trade, were against public policy,

“ . . . It is true that in addition to the question of public policy other factors may weigh against the imposition of such restrictions in many, perhaps most, instances. Thus an attempted restriction, instead of being aimed at the accomplishment of a useful commercial, industrial or social purpose, may be merely capricious and serve only to clog the free and untrammelled circulation of personal property. Again, in the case of some restrictive covenants limiting the use of chattels, it might be difficult, if not impossible, to detect breaches, so as to make legal enforcement practical. There is no reason, however, why an ancient generalization of law should be held invariably to apply to cases in which modern conditions of commerce and industry and the nature of new scientific inventions make restrictions highly desirable. *Mere aphorisms should not be permitted to fetter the law in furthering proper social and economic purposes.*”¹

¹ The Court's attention is also called to the case of *Waterson, et al. v. Irving Trust Co.*, 48 F. (2d) 704, (C. C. A. 2), decided since the present case was brought, in which the court below held that certain music copyrights, after sale by a trustee in bankruptcy, were still subject to the composers' reserved rights to royalties. The authorities relating to equitable servitudes on chattels are extensively reviewed in the opinion by Judge A. N. Hand and numerous instances are cited of restrictions on the use of chattels which have been enforced by the courts. The opinion states (p. 708):

“Courts in the United States have enforced rights resembling an equitable servitude binding on a third party who has acquired personal property from one who is under a contract to use it for a particular purpose or in a particular way (Citing numerous cases).”

So, in the instant case, the oft repeated saying that the sale of a patented article frees it from the patent monopoly, should not be permitted to destroy reasonable restrictions upon the field of use of such articles where, as in the case at bar, those restrictions are clearly within the monopoly of the patent law, are not in their nature illegal or unreasonable, but serve a proper and desirable economic purpose.

It should not be forgotten that we are here dealing with a statutory grant, the extent of which must be determined from the statute itself as has been made clear by this Court in many decisions, including the *Motion Picture* case, *supra*, and *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373, 401-402. Thus, even if it were true at common law—and it is not as we have seen—that after sale no restriction of any nature on unpatented personal property would be enforced, that would not control this patent case. Assuming the restriction upon a patented device is not unreasonable, the sole and only question is whether the restriction is within the statutory grant of the exclusive right to use. In addition to its holding in *Mitchell v. Hawley* (that restrictions on time of use of a patented machine are valid) this Court has recently indicated, if it has not actually held, in the *Motion Picture* case, *supra*, that restrictions which are on the use of the patented device itself are within the monopoly granted by the statute. It would therefore seem clearly to follow that this question should be answered in the affirmative.

We submit that on principle and authority, reasonable restrictions upon the field of use of a patented device sold under the patent, are valid and enforceable under the patent law as against a purchaser with notice of the restrictions. Therefore, petitioner would be an infringer even if the sale of the patented amplifiers to it had been under the patents, instead of in infringement of the patents.

The decrees below should be affirmed.

Respectfully submitted,

MERRELL E. CLARK,
HENRY R. ASHTON,
Counsel for Respondents.

Of Counsel:

F. T. WOODWARD,
H. A. PATTISON,
E. J. DRISCOLL. /